# Veteran Resources Inc.

VTI VTI VTI

2002 Annual Report

## Profile

Veteran Resources Inc. is a Calgary based junior oil and gas exploration and development company with production operations in Alberta, British Columbia and Ontario. The Company applies its technical and operational skills to find and develop petroleum reserves in selected core areas that have been identified as having significant potential.

## Shareholder Information

As at December 31, 2002 the number of issued and outstanding common shares was 32,540,920. These shares are traded on the TSX Venture Exchange under the symbol VTI.

## Annual General Meeting

The Annual General Meeting of Shareholders of Veteran Resources Inc. will be held in the auditorium, second floor, Bantrel Tower, 700 – 6th Avenue S.W. Calgary, Alberta at 9:00 a.m. on June 12, 2003.

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## ABBREVIATIONS

| | |
|---|---|
| ARTC | Alberta Royalty Tax Credit |
| bbls | barrels |
| bbl/d | barrels per day |
| boe | barrels of oil equivalent |
| boe/d | barrels of oil equivalent per day |
| mbbl | thousand barrels |
| mboe | thousand barrels of oil equivalent |
| mcf | thousand cubic feet |
| mcf/d | thousand cubic feet per day |
| mmcf | million cubic feet |
| mmcf/d | million cubic feet per day |
| bcf | billion cubic feet |
| NGLs | natural gas liquids |
| BPO | before payout |
| APO | after payout |
| psi | pounds per square inch |
| GORR | gross overriding royalty |
| mmbtu | million British Thermal Units |

# Highlights

| | | 2002 | | 2001 | % Change |
|---|---|---|---|---|---|
| **Financial** | | | | | |
| Cash flow from operations | $ | 619,926 | $ | 929,043 | (33.2) |
| Basic per share | | 0.02 | | 0.03 | (33.3) |
| Diluted per share | | 0.02 | | 0.03 | (33.3) |
| Earnings | | | | | |
| Basic per share | | – | | (0.10) | 100.0 |
| Diluted per share | | – | | (0.10) | 100.0 |
| Common shares (weighted average for year) | | 28,908,510 | | 27,073,212 | 6.8 |
| Common shares (outstanding at Dec. 31) | | 32,540,920 | | 28,899,620 | 12.6 |
| Capital expenditures, net | $ | 4,660,526 | $ | 3,926,173 | 18.7 |
| Total assets | $ | 13,852,510 | $ | 8,817,416 | 57.1 |
| Bank loan | $ | 2,825,000 | $ | 1,227,247 | 130.2 |
| Shareholders' equity | $ | 14,694,141 | $ | 13,295,620 | 10.5 |
| **Operating** | | | | | |
| Oil and NGLs (bpd) | | 80 | | 90 | (11.8) |
| Average price ($/bbl) | $ | 37.08 | $ | 34.35 | 7.9 |
| Natural gas (mcf/d) | | 678 | | 641 | 5.8 |
| Average price ($/mcf) | $ | 4.44 | $ | 5.99 | (25.8) |
| Barrels of oil equivalent per day (6:1) | | 193 | | 197 | (2.0) |
| Average price ($/boe) | $ | 30.99 | $ | 35.22 | (12.0) |
| **Undeveloped Land** | | | | | |
| Gross acres | | 153,851 | | 72,825 | 111.6 |
| Net acres | | 114,400 | | 37,609 | 204.2 |
| **Reserves (Total proven plus risked probable)** | | | | | |
| Oil and NGLs (mbbl) | | 422 | | 361 | 16.8 |
| Natural gas (bcf) | | 4.026 | | 2.093 | 92.3 |

**All monetary values are in Canadian dollars unless otherwise stated.**
**Natural gas volumes have been converted from 6 mcf to one equivalent bbl (boe).**

# President's Message

2002 was a pivotal year for Veteran Resources. We worked to refocus our operations in core areas with the goal of increasing profitability and ultimately adding greater value for shareholders. Improved access to capital enabled us to acquire quality Ontario-based assets and enhanced our ability to participate in a winter drilling program on our core producing properties. As a result, December average daily production rose to 272 boe/d, a 64 percent increase over the same period in 2001. Since our two principal properties in Western Canada are more accessible under winter conditions, most of the newly financed drilling activity spilled over into 2003. Our February 2003 exit production rate was 296 boe/d.

## Growth of Operations

### Ontario

In November 2002, Veteran completed a $3 million acquisition of producing properties located in the southwest region of Ontario, approximately 40 kilometres east of Windsor. This added 90 boe/d of production and an important new core area to our portfolio. Primarily sweet light oil, this production also includes associated and non-associated gas, all of which command premium prices in Ontario. Veteran was attracted to Ontario because of high commodity pricing coupled with low operating costs and royalties, which are expected to result in high netbacks and superior profitability. Ontario also has a well-established infrastructure which, combined with large tracts of relatively unexplored land, offers optimal exploration potential.

The acquisition provides Veteran with a large undeveloped land base in Ontario, increasing our total acreage to 102,008 gross (91,794 net) acres. We are currently reviewing and interpreting 2,900 kilometres of seismic data that accompanied the acquisition. Our preliminary analysis has identified more than 15 potential drilling opportunities.

Our Ontario exploration focus will target Ordovician-age Trenton and Black River carbonates, at depths of only 850 metres, which are geologically similar to the Slave Point Formation of western Canada. Generally, these shallow wells produce at initial rates in excess of 200 boe/d while contributing reserves of up to 200,000 boe or more. That means payout, even of the more expensive horizontal wells, will often be achieved in less than six months.

The vast majority of Veteran's Ontario lands are onshore but we also hold an interest in several sections of land beneath Lake Erie. At the end of 2002 we pooled and farmed out two sections to a major oil and gas company while retaining a net two percent gross overriding royalty (GORR). A five-kilometre horizontal well was successfully drilled on the pooled lands and tied in during February 2003 at an initial production rate of approximately 250 boe/d. Subsequently, Veteran acquired a 50 percent working interest in four sections adjacent to the discovery well. As operator, we intend to license a drilling location on these lands in the second half of 2003.

Veteran's substantial Ontario land base, together with the accompanying seismic data, will play a key role in our growth strategy.

### Western Canada

An active winter drilling program was initiated in the fall of 2002, with Veteran participating as a 30 percent working interest partner in a Jean Marie gas well at Gunnell in Northeast British Columbia. The well, which had initial flush production of approximately 6 mmcf/d, stabilized at 1.5 mmcf/d by year-end. In December, we also farmed out a 30 percent working interest in a second Gunnell well for a 15 percent GORR. We also participated as a 15 percent working interest partner in a third well drilled in early 2003. The latter two wells were being tied in at the time of writing this report.

Gunnell, where we maintain a working interest in 34 undrilled sections (23,000 acres), is characterized by low drilling risk and close proximity to infrastructure. The ability to quickly convert drilling capital into cash flow will ensure that Gunnell will continue to feature prominently in future capital programs.

Another core growth area in Western Canada is at Watch/Plante in Northwest Alberta. Veteran participated with a 15 percent working interest in a fractured Cardium gas well which initially produced at a rate of 0.5 mmcf/d. Two additional wells drilled in early 2003 are currently being completed and are expected to be tied in before spring break-up.

At Blair Creek, British Columbia, a portion of our lands was farmed out for a 15 percent GORR. A well was drilled in January 2003 and currently is being evaluated by the operator. As well, in May 2002 we divested a minor working interest property at Red Earth, Alberta, which was not core to our growth strategy.

## Enhanced Financing

Our new association with the National Bank of Canada enabled us to acquire the Ontario assets and implement our drilling program. Veteran's credit line has been expanded to a total of $5.8 million, providing more financial flexibility for growth. At year-end 2002 we had drawn down $2.8 million. We intend to prudently maintain debt at a level approximating one year's forward cash flow.

Veteran also completed an equity financing in late December 2002 and early January 2003 totalling $2.2 million. Proceeds were used to repay the bridge financing for the Ontario acquisition, with the remainder allocated to drilling. We are currently evaluating additional financing options to reduce debt and support an active 2003 drilling program.

## Added Reserves

Sproule Associates Limited independently estimated Veteran's proven reserves at 934 mboe, a 34 percent increase over 2001. Proven plus risked probable reserves were determined to be 1,093 mboe, with 61 percent attributable to natural gas while oil and natural gas liquids (NGLs) comprised the remaining 39 percent.

Sproule Associates Limited also determined the Company's pretax proven reserve value, discounted at 10 percent, to be $9.0 million, an 85 percent increase over 2001. Proven plus risked probable reserves were valued at $9.8 million. All-in finding and development costs for 2002 were $14.30 per boe of proven reserves added, and $9.61 per boe on a proven plus risked probable basis.

The reserves, in conjunction with an independent land evaluation, translate into a corporate net asset value (discounted 10 percent pretax) of $0.40 per share for 2002, almost double the previous year's value of $0.22 per share.

## Industry Environment

Commodity markets in North America experienced continued volatility in 2002. The crude oil market remained quite firm due to supply concerns. During the first half of 2002, the Organization of Petroleum Exporting Countries (OPEC) limited production, causing supply concerns. The latter half of 2002 witnessed continued supply issues as traders speculated on the impact of a war in Iraq combined with a strike in Venezuela that curtailed its oil exports. These influences resulted in oil prices soaring in December and reaching a 12-year high in February 2003. Veteran does not believe these record prices will continue into the latter half of 2003 and consequently is basing its internal projections on a more conservative West Texas Intermediate (WTI) average price of US $25.00/bbl for 2003.

The natural gas market softened in early 2002 due to a mild winter, resulting in excess North American storage capacity in the spring. By late fall the trend had begun to reverse when winter conditions set in earlier than normal in the United States with cooler temperatures experienced in November. Unseasonably cold temperatures and severe winter storms on the East Coast continued to erode storage supplies, as demand outstripped supply, culminating in record spot prices in February 2003. Veteran believes higher-than-normal pricing will persist through the rest of 2003, but is using a relatively conservative figure of slightly more than CDN $5.00/mcf as the yearly average for internal forecasting purposes.

## Outlook

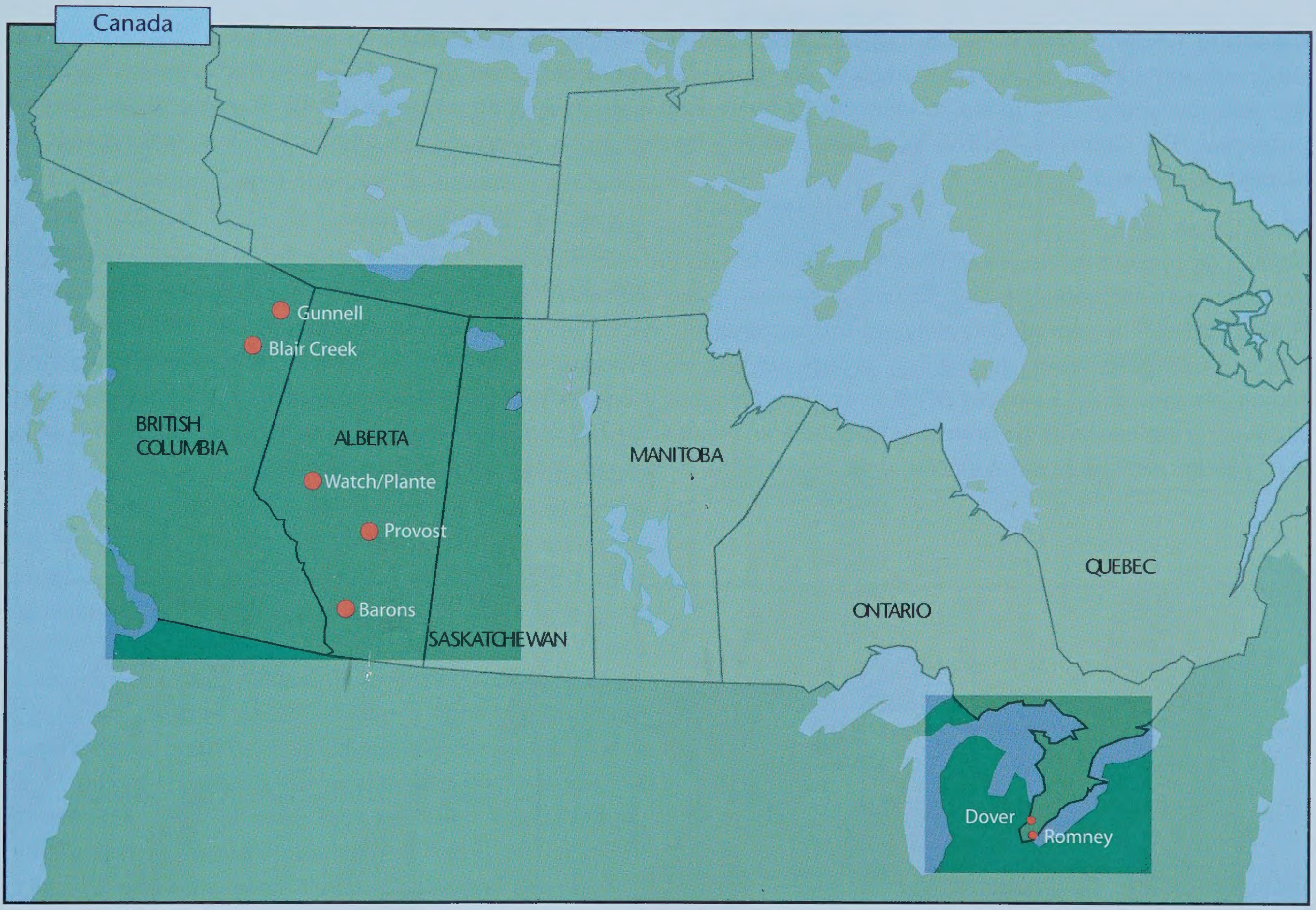
Increased production and high commodity prices are expected to translate into a banner year for Veteran in 2003. We expect our growth to continue through low-risk drilling at Gunnell and Watch/Plante, supported by internal cash flow and judicious use of our credit line. Prospects for future growth in Ontario will require additional financing, or a farm-out, to implement a multi-well exploration program. Management is currently evaluating various options to accommodate this.

In closing, I would like to thank the shareholders for their patience while Veteran refocused its strategy during 2002. I would also like to thank the Board of Directors for their support and guidance and, in particular, Mr. Donald Jewitt, who resigned his position as President in July to pursue other business interests. Mr. Jewitt has been with Veteran since its inception and will continue to contribute as Chairman of the Board. Finally, I would like to thank the staff for their commitment and efforts in 2002. We intend to work even harder in 2003 to add greater value for our shareholders.

Philip J. Loudon
President and Chief Executive Officer

February 28, 2003

## Focus Areas




Veteran's 2002 operations activities were focused in northeast British Columbia at Gunnell and Blair Creek, in northwest Alberta at Watch/Plante, and offshore Lake Erie, Ontario at Romney. The Company also closed an acquisition on November 18, 2002 for the purchase of producing properties and reserves in Ontario along with undeveloped lands and an extensive seismic database. The acquisition of these assets will substantially increase the Company's Ontario focus during 2003 and future years.

Increased exposure in Ontario was desirable for a number of technical and commercial reasons, including: good exploration potential, availability of large land tracts, access to infrastructure and an excellent combination of moderate royalty rates, high product netbacks and proximity to markets.

Veteran achieved 100 percent drilling success during 2003 through participation in two gross (0.45 net) natural gas wells in western Canada. A further natural gas well was drilled by a third party at no cost to the Company under a farm-out agreement.

## British Columbia

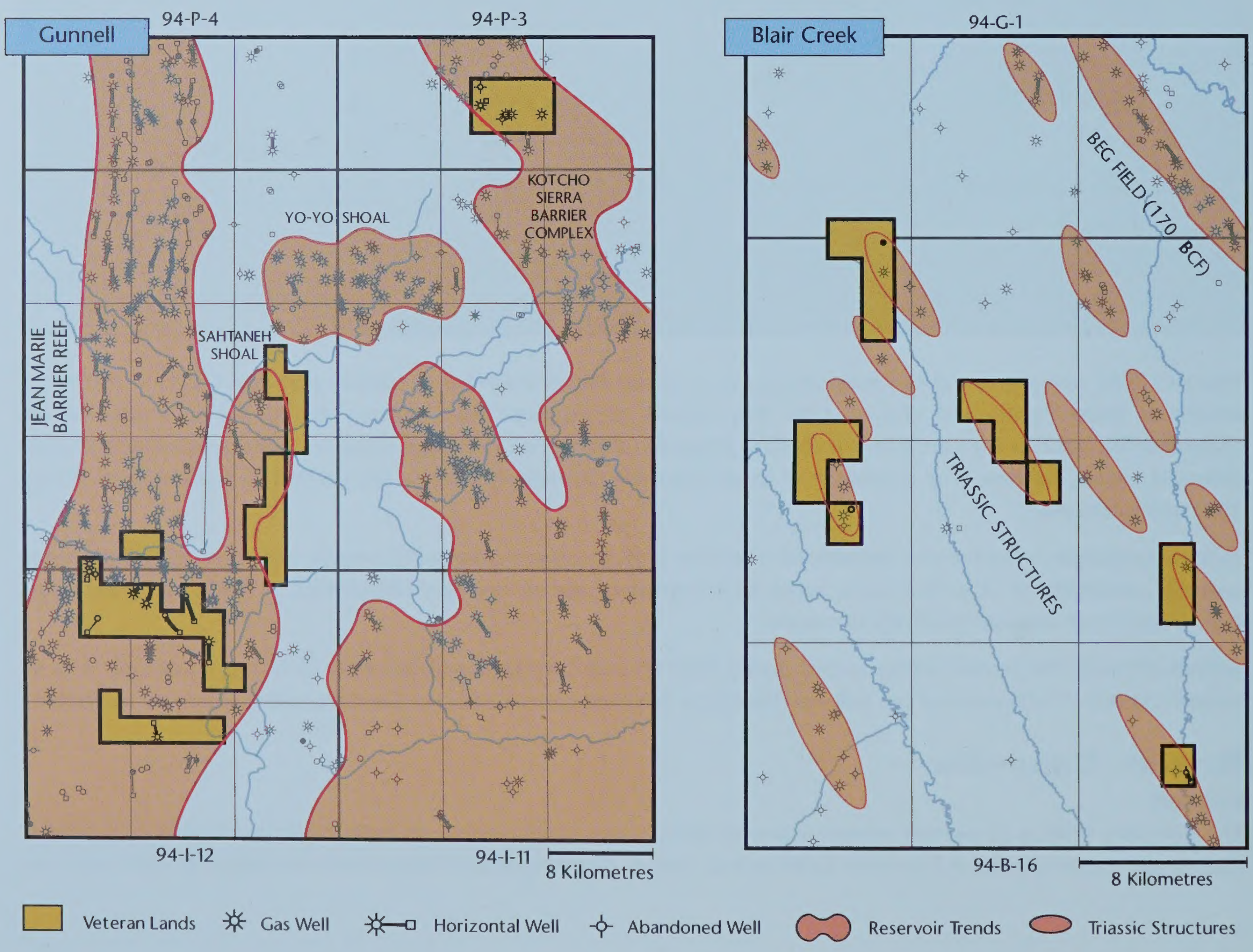
### Gunnell

The Company holds a 25 percent interest in two producing Jean Marie natural gas wells, a 30 percent interest in a third natural gas well and a net 4.5 percent GORR in two others. The 30 percent interest well was drilled in 2002 and was

producing 1.5 mmcf/d (450 mcf/d net) at year-end. Veteran elected to participate in a well in early 2003, which was successful and is being tied in. The Company also expects to participate in two additional wells in the Gunnell area during the year, but retains the option to farm out its interest on a single spacing unit basis to the operator of the Gunnell properties. The Company held a 30 percent working interest in approximately 36 undrilled drilling spacing units at Gunnell at year-end.

### Blair Creek

Veteran farmed out its interest in one gas spacing unit on the most northerly block of its Blair Creek acreage. An existing wellbore was recompleted and tested in several zones with the Gething Formation showing the presence of hydrocarbons. The operator is evaluating the test results to determine if it is possible to economically produce the well. Veteran's 100 percent interest in a four gas spacing unit block located to the west was farmed out to an industry partner for a non-convertible 15 percent GORR. A well was drilled on this acreage in the winter of 2002/2003 and was undergoing production evaluation at the time of writing. Veteran maintains a 100 percent interest in a total of seven gas spacing units, a 70 percent interest in three spacing units and a GORR on five gas spacing units in the Blair Creek area.



## Alberta

### Barons

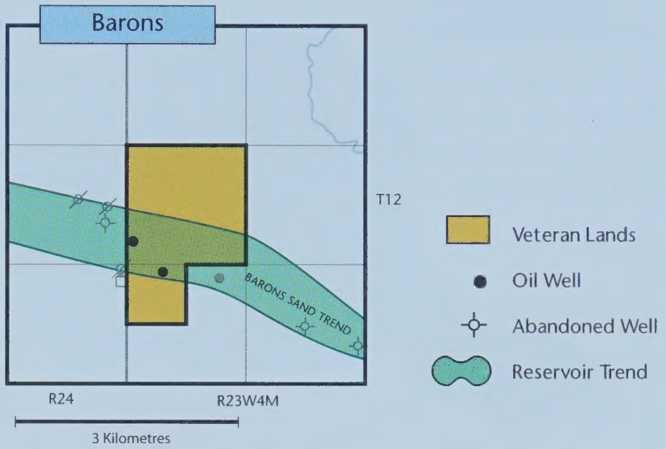
The Company holds a 48.25 percent and 100 percent interest in each of two producing oil wells at Barons, Alberta and recently purchased a 100 percent interest in 475 acres of land adjacent to the two producing wells. A technical evaluation will be completed in 2003 to determine if development locations can be economically drilled. The Company operates the Barons property and holds 635 gross (593 net) acres of undeveloped land in the area.

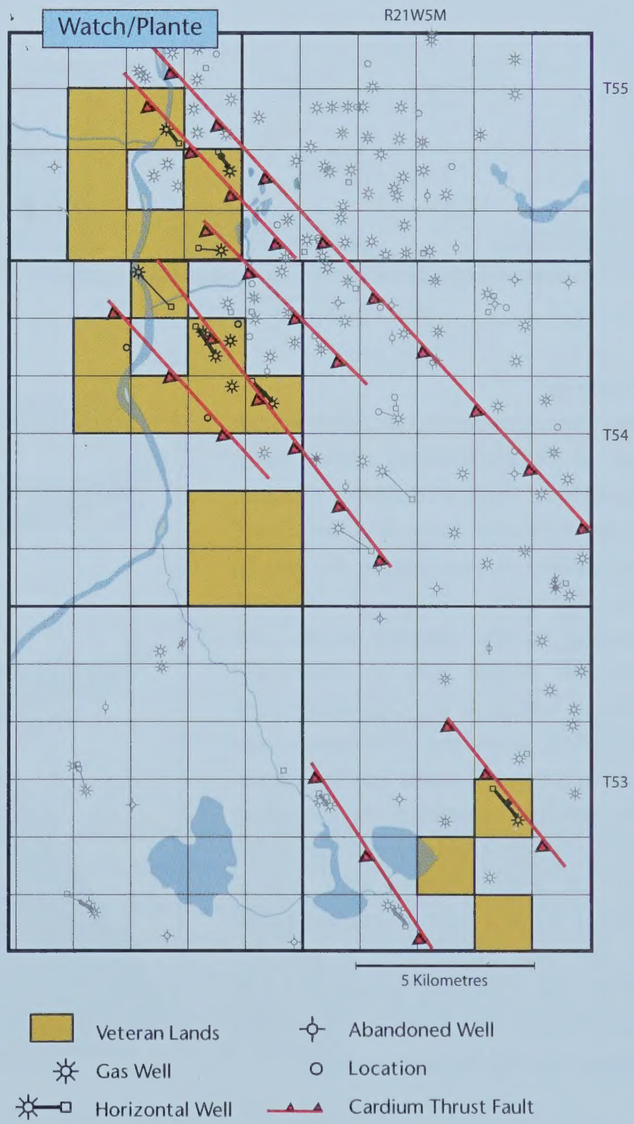
### Watch/Plante

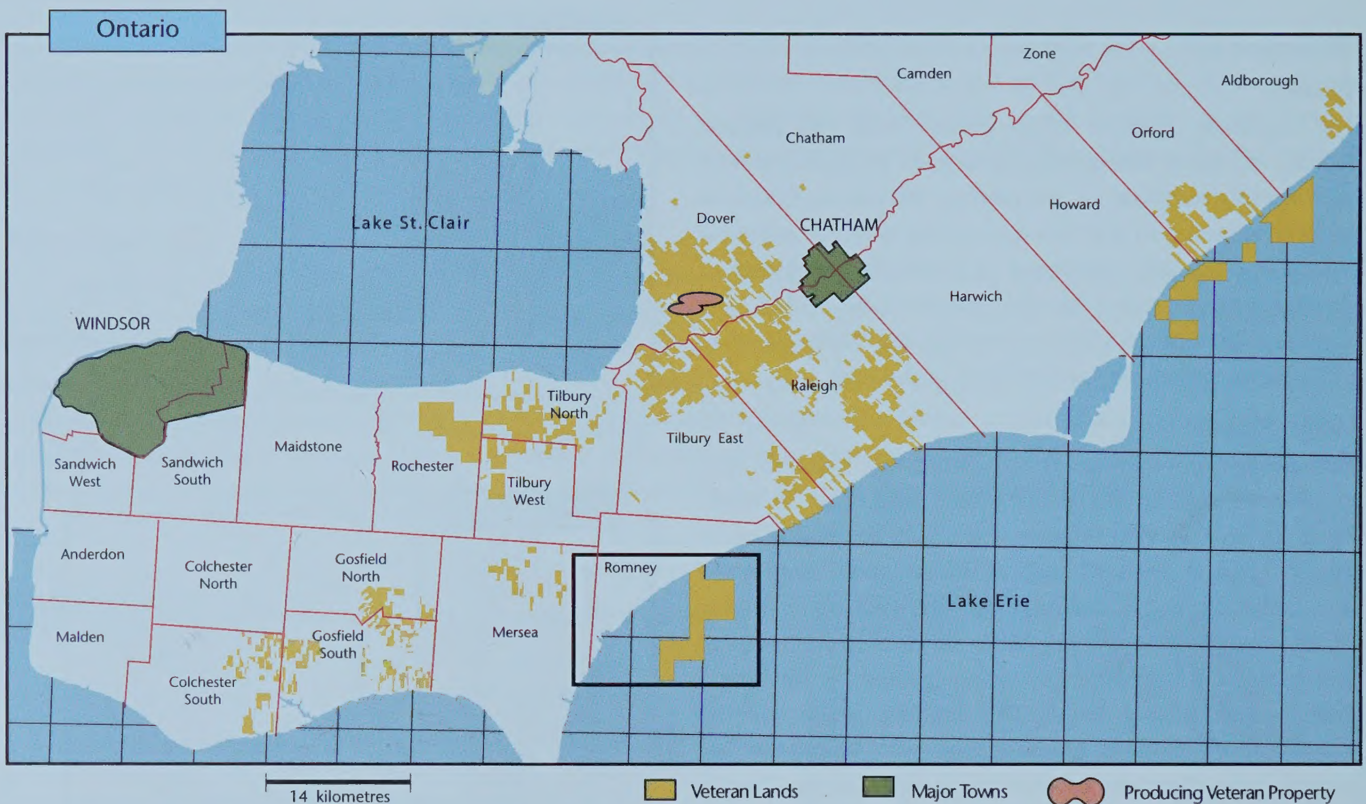
Veteran has an interest in six producing Cardium gas-condensate wells in the Watch/Plante area. The Company holds varying working interests from 2.25 to 25 percent in 10,239 gross (1,614 net) acres of undeveloped lands in the area. The Company expects to participate in further development drilling during 2003. Some of the acreage at Watch/Plante is held under a holding granted by the Alberta Energy and Utilities Board. This holding allows for the Cardium Formation to be developed with four wells per section rather than more typical full section spacing. During 2002 two rental compressors were replaced with purchased units thereby reducing operating costs. At the time of writing, the Company was awaiting completion of two recently drilled 15 percent working interest wells. Veteran had also received notice of a third well to be drilled in the ongoing development of the Cardium natural gas potential in the area.

## Ontario

Veteran closed an acquisition of Ontario producing properties, 83,186 gross (80,236 net) acres of undeveloped lands and 2,900 kilometres of seismic data on November 18, 2002. This $3 million acquisition included producing oil and gas properties at Dover, which Veteran will operate, in addition to significantly increasing the Company's undeveloped Ontario land holdings. A technical evaluation of these lands will be completed as quickly as possible to high-grade prospects for further seismic delineation and/or exploratory drilling. A preliminary review of the geophysical and geological data indicates approximately 15 potential Ordovician and Cambrian zone targets.

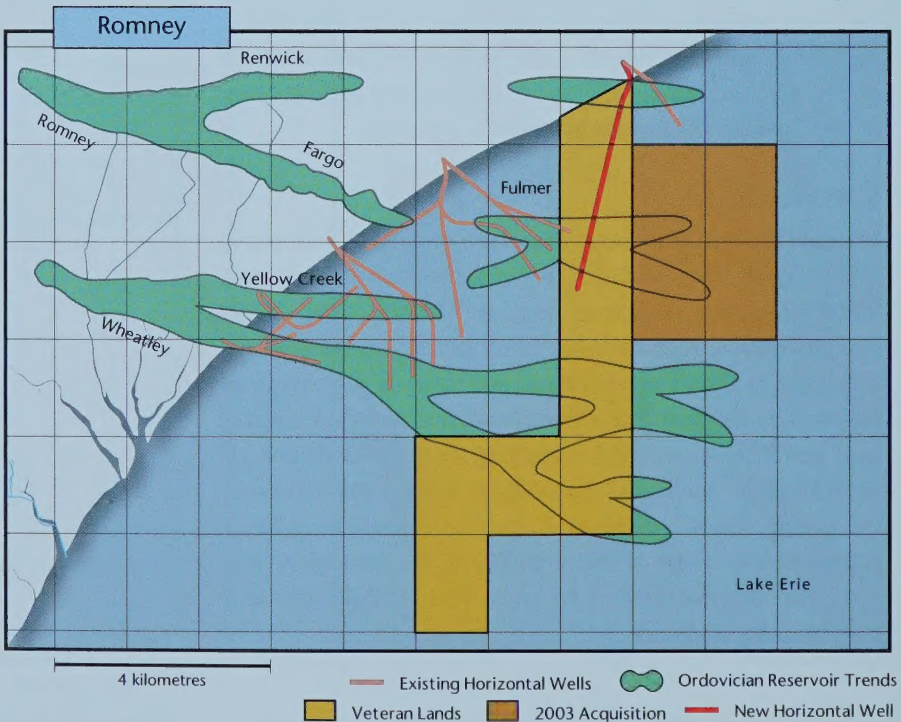





## Romney

The Company pooled and farmed out two 50 percent working interest tracts of offshore land at Romney, Ontario. A five-kilometre long horizontal well was drilling at year-end, at no cost to the Company, from an onshore location to the offshore target. The offshore target was a seismically defined feature in the Ordovician zone straddling both the Company's and adjacent mineral rights holder's lands. The well was completed and placed on production in February with an initial rate of approximately 250 boe/d. Veteran holds a net two percent GORR on this well. Subsequent to year-end 2002, the Company acquired 2,520 gross (1,260 net) acres of crown land adjacent to the Romney acreage.



## Undeveloped Land

Veteran significantly increased its undeveloped land inventory with the acquisition of 83,186 gross (80,236 net) acres in Ontario. When added to Veteran's pre-existing Ontario and western Canadian holdings, the Company held an inventory of 153,851 gross (114,400 net) acres of undeveloped land at year-end 2002. Antelope Land Services Ltd. has appraised the Company's undeveloped land to have replacement value of $6.2 million. Approximately $4.9 million or 79 percent of this value is attributed to the western Canadian Lands.

### Undeveloped Land

| At December 31, 2002 | Gross Acres | Net Acres | $000s |
|---|---|---|---|
| Alberta | | | |
| Barons | 635 | 593 | 124.1 |
| Watch/Plante | 10,239 | 1,614 | 194.4 |
| Alberta Total | 10,874 | 2,207 | 318.5 |
| British Columbia | | | |
| Blair Creek/Caribou | 13,116 | 12,242 | 2,049.5 |
| Gunnell | 27,853 | 8,157 | 2,516.1 |
| British Columbia Total | 40,969 | 20,399 | 4,565.6 |
| Ontario Total | 102,008 | 91,794 | 1,295.0 |
| Total | 153,851 | 114,400 | 6,179.1 |

### Undeveloped Land Reconciliation

| At December 31, 2002 | Gross Acres | Net Acres |
|---|---|---|
| December 31, 2001 | 72,825 | 37,609 |
| Property acquisitions | 83,661 | 80,711 |
| Property dispositions | (4,739) | (3,971) |
| Other | 2,104 | 51 |
| December 31, 2002 | 153,851 | 114,400 |
| Percent change | 111 | 204 |

Veteran divested its minor interest in the Red Earth area for a cash consideration of $140,000. This disposition included undeveloped lands that did not meet the Company's expectations for potential value creation. The Company holds royalty interests in 5,486 acres of lands in western Canada and holds 5,955 acres of gas storage rights in Ontario in addition to the lands identified on the tables. Antelope Land Services has appraised the gas storage rights to have a value of $88,400. As noted in the year-to-year reconciliation, Veteran's undeveloped land holdings increased in excess of 100 percent on a gross basis and in excess of 200 percent on a net basis. The other category in the reconciliation includes reallocations and adjustments in methodology used previously by the Company and Antelope Land Services Ltd.

# Operations Review

## Drilling Activity

During 2002 Veteran continued to develop its western Canadian oil and gas properties while strengthening its presence in Ontario. The Company expects to continue these two thrusts during 2003; however, a greater emphasis will be placed on the Ontario property base as the year progresses. Veteran participated in the drilling of two gross (0.45 net) development natural gas wells and farmed out one successful gas well at no cost to the Company.

**Drilling Activity**

| | 2002 | 2001 |
|---|---|---|
| Gross wells | 2 | 2 |
| Net wells | 0.45 | 1.0 |
| Net oil wells | – | – |
| Net gas wells | 0.45 | – |
| Net suspended wells | – | 1.0 |
| Net abandoned wells | – | – |

## Product Sales

Sales of crude oil and natural gas liquids averaged 80 bbl/d while sales of natural gas averaged 678 mcf/d during 2002. Aggregate sales averaged 193 boe/d, a modest decrease of 4 boe/d or two percent from sales recorded during 2001. Overall sales during December 2002 averaged 272 boe/d reflecting the tie-in of a new well at Gunnell and the acquisition of producing properties at Dover, Ontario. The December average of 272 boe/d was up 106 boe/d or 64 percent over December 2001 sales of 166 boe/d. Veteran's largest producing asset in 2002 was the Watch/Plante region of Alberta which provided 65 boe/d or 34 percent of the Company's sales. At year-end 2002, 36 percent of the Company's sales were oil and NGLs while 64 percent was natural gas. Although the Watch/Plante area was the largest contributor to sales for the year, the Gunnell and Ontario properties were providing more sales at year-end.

**2002 Annual Average Daily Sales**

| Area | Oil & NGLs bbl/d | Natural Gas mcf/d | Total boe/d | Contribution % |
|---|---|---|---|---|
| Watch/Plante | 15 | 301 | 65 | 34 |
| Gunnell | 1 | 341 | 58 | 30 |
| Provost | 41 | – | 41 | 21 |
| Barons | 16 | – | 16 | 8 |
| Ontario | 5 | 36 | 11 | 6 |
| Red Earth | 2 | – | 2 | 1 |
| Total | 80 | 678 | 193 | 100 |

## December 2002 Average Daily Sales

| Area | Oil & NGLs bbl/d | Natural Gas mcf/d | Total boe/d | Contribution % |
|---|---|---|---|---|
| Gunnell | 3 | 582 | 100 | 37 |
| Ontario | 31 | 202 | 65 | 24 |
| Watch/Plante | 15 | 252 | 57 | 21 |
| Provost | 38 | – | 38 | 14 |
| Barons | 12 | – | 12 | 4 |
| Red Earth | – | – | – | – |
| Total | 99 | 1,036 | 272 | 100 |

## Crude Oil, NGLs, & Natural Gas Reserves

The Company's 2002 year-end reserves were determined by Sproule Associates Limited through generally accepted engineering methods and are the total recoverable reserves associated with the acreage in which the corporation holds an interest.

The Corporation's gross reserves are the working and overriding royalty interest share of reserves before the deduction of royalties. The oil and NGLs reserves are presented in thousands of barrels at stock tank conditions. The pipeline natural gas reserves are presented in millions of cubic feet at standard temperature and pressure conditions. Sproule Associates Limited has categorized these estimates of the Company's oil, NGLs and natural gas reserves contained herein as proven and risked probable. The estimates of the Corporation's recoverable oil, NGLs and natural gas reserves contained herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual recovered reserves may be greater or less than the estimates provided herein.

## Total Reserves

| | Oil mbbl | NGLs mbbl | Natural Gas mmcf | Equivalent mboe (6:1) |
|---|---|---|---|---|
| Proven developed | 362.6 | 45.1 | 2,790 | 872.7 |
| Proven undeveloped | – | 1.7 | 358 | 61.4 |
| Total proven | 362.6 | 46.8 | 3,148 | 934.1 |
| Risked probable | 4.3 | 8.4 | 878 | 159.0 |
| Total Proven Plus Risked Probable | 366.9 | 55.2 | 4,026 | 1,093.1 |

## Reserves Comparison

| | Oil & NGLs mbbl | | Natural Gas mmcf | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Proven developed | 407.7 | 329.0 | 2,790 | 2,209 |
| Proven undeveloped | 1.7 | – | 358 | – |
| Total proven | 409.4 | 329.0 | 3,148 | 2,209 |
| Risked probable | 12.7 | 10.2 | 878 | – |
| Total Proven Plus Risked Probable | 422.1 | 339.2 | 4,026 | 2,209 |

At year-end the Company's gross proven plus risked probable oil and NGLs reserves were 422.1 mbbl while gross natural gas reserves were 4,026 mmcf for a total equivalent of 1,093.1 mboe. Eighty-five percent of Veteran's reserves were classified as proven on a boe basis.

Crude oil, NGLs and natural gas reserves increased year over year as a consequence of additions, extensions and the acquisition of producing properties in Ontario. The Company's year-end reserves were comprised of 39 percent oil and NGLs, and 61 percent natural gas, and had a reserve life index of 15.3 years on a boe trailing basis. This reserve life index would be reduced to 11.0 years if it is determined by annualizing the higher December average production rate.

## Reserves Reconciliation

| *(mboe)* | Proven | Risked Probable | Total |
|---|---|---|---|
| Balance at December 31, 2001 | 697.2 | 10.2 | 707.4 |
| Additions & extensions | 128.8 | 79.6 | 208.4 |
| Acquisitions | 307.7 | 4.8 | 312.5 |
| Dispositions | (17.6) | (10.2) | (27.8) |
| Revisions | (110.7) | 74.6 | (36.1) |
| Production | (71.3) | – | (71.3) |
| Balance at December 31, 2002 | 934.1 | 159.0 | 1,093.1 |

### Reserve Value

The value of the Company's oil and natural gas reserves was independently evaluated by Sproule Associates Limited through a determination of the discounted net present worth of future net cash flow. This was determined prior to any provision for income taxes and indirect costs, but after the deduction of royalties, estimated future capital expenditures and well abandonment costs. It should, however, not be assumed that the present worth of the estimated cash flow is representative of the fair market value of the reserves. There is no certainty that the price and cost assumptions which are used will be attained, and any variance could be material.

## Escalated Price Forecast

| Year | WTI $US/bbl | CDN Oil Edm $CDN/bbl | Alberta Plantgate Gas Price $CDN/mmbtu |
|---|---|---|---|
| 2003 | 25.99 | 38.43 | 5.72 |
| 2004 | 23.60 | 34.82 | 5.21 |
| 2005 | 21.63 | 32.22 | 4.60 |
| 2006 | 21.96 | 32.78 | 4.27 |
| 2007 | 22.29 | 33.90 | 4.42 |
| 2008 | 22.62 | 34.42 | 4.48 |
| 2009 | 22.96 | 35.58 | 4.67 |
| 2010 | 23.32 | 36.13 | 4.75 |
| 2011 | 23.66 | 36.69 | 4.84 |
| 2012 | 24.01 | 37.26 | 4.94 |
| 2013 | 24.37 | 37.83 | 5.03 |
| 2014 | 24.74 | 38.42 | 5.12 |

## Present Value of Reserves (escalated price)

| (Thousands) | Discounted Net Present Value Before Income Tax 0% | 10% | 15% |
|---|---|---|---|
| Proven developed | $ 16,218 | $ 8,409 | $ 6,997 |
| Proven undeveloped | 957 | 634 | 539 |
| Total proven | $ 17,175 | $ 9,043 | $ 7,536 |
| Risked probable | 2,544 | 756 | 528 |
| Total Proven Plus Risked Probable | $ 19,719 | $ 9,799 | $ 8,064 |

## Present Value of Reserves (constant price)

| (Thousands) | Discounted Net Present Value Before Income Tax 0% | 10% | 15% |
|---|---|---|---|
| Proven developed | $ 21,605 | $ 11,366 | $ 9,367 |
| Proven undeveloped | 1,332 | 870 | 733 |
| Total proven | $ 22,937 | $ 12,236 | $ 10,100 |
| Risked probable | 3,232 | 1,013 | 716 |
| Total Proven Plus Risked Probable | $ 26,169 | $ 13,249 | $ 10,816 |

The escalated prices were forecast by Sproule Associates Limited as of January 1, 2003. Product prices used in the constant price evaluation are based on Veteran's actual wellhead or plantgate prices for the month of December 2002.

## Constant Price Forecast

| Oil | | Gas | | NGLs | |
|---|---|---|---|---|---|
| Barons | $ 43.04/bbl | Dover | $ 6.76/mcf | Gunnell | |
| Provost | $ 40.53/bbl | Gunnell | $ 5.58/mcf | Pentanes plus | $ 36.86/bbl |
| Dover | $ 46.15/bbl | Watch/Plante | $ 6.17/mcf | Watch/Plante | |
| Gosfield | $ 46.08/bbl | Gosfield | $ 8.56/mcf | Propane | $ 26.80/bbl |
| | | | | Butane | $ 32.87/bbl |
| | | | | Pentanes plus | $ 42.60/bbl |

### Finding and Onstream Costs

The Company's all-in average finding, development and onstream costs were $14.30 per boe on a proven basis and $9.61 per boe on a proven plus risked probable basis. These numbers incorporated all additions and extensions along with acquisitions and revisions to prior year estimates. No reserve additions were made in 2001 to allow for a prior year comparison.

## Finding and Onstream Costs

| | 2002 |
|---|---|
| Net capital expenditures (millions) | $ 4.66 |
| Proven reserves added (mboe) | 325.80 |
| Proven plus risked probable reserves added (mboe) | 484.80 |
| Average cost/boe (proven) | $ 14.30 |
| Average cost/boe (proven plus risked probable) | $ 9.61 |

## Reserve Recycle Ratio

| | 2002 |
|---|---|
| Average cash netback per boe | $ 18.86 |
| Reserve addition and onstream cost per boe | |
| Proven | $ 14.30 |
| Proven plus risked probable | $ 9.61 |
| Reserve recycle ratio | |
| Proven | 1.32 |
| Proven plus risked probable | 1.96 |

# Marketing

### Crude Oil and NGLs

Veteran continued to sell its liquid products under short-term arrangements. The Company's average crude oil price was $37.74 per barrel in 2002 up from $33.49 per barrel in 2001. The average NGLs price received by the Company was $34.45 per barrel, a decrease of $2.60 per barrel over the price received during 2001. Crude oil and NGLs prices strengthened during 2002 as a result of a combination of factors, including reduced output by OPEC, concerns of an impending war with Iraq, and civil strife in Venezuela which curtailed crude oil exports. Veteran has not hedged any of its crude oil or NGLs production for 2003 but will re-evaluate this matter during 2003.

### Natural Gas

Veteran's natural gas marketing strategy has been to maintain exclusive exposure to the spot market. The Company continues to believe that new supplies in North America are insufficient to offset normal declines in older fields. Gas storage, fuel switching and mild weather have all helped to moderate price swings; however, the days of inexpensive gas appear to be over. The Company received an average natural gas price of $4.44 per mcf in 2002, a decrease of $1.55 per mcf or 25.8 percent over the $5.99 per mcf received during 2001. The Company has not hedged any of its gas production for 2003 and expects prices to remain firm throughout the year.

# Environment/Safety

Veteran is aware of the risks which are inherent in oil and gas exploration, development and production activities. The Company conducts its operations in compliance with provincial and federal guidelines and has developed an emergency response program for its employees and contractors. The Company reduces the risks inherent in its activities by careful planning and conducts operations in accordance with good oilfield practices.

# Management's Discussion and Analysis

Management's discussion and analysis of Veteran's financial and operating results should be read in conjunction with the audited financial statements and notes for the years ended December 31, 2002 and December 31, 2001. Note that historical results are not necessarily indicative of future performance.

## Corporate Acquisition

During 2002, Veteran closed the acquisition of additional oil and gas properties in the province of Ontario. The transaction was completed with Veteran acquiring all of the issued and outstanding securities of 978889 Alberta Ltd. for a total cash consideration of $3.0 million effective April 1, 2002. Only two months of additional revenue have been reflected in the financial statements, to coincide with the November 2002 closing of the Ontario acquisition.

978889 Alberta Ltd. was a private Alberta corporation that owned interests in certain petroleum and natural gas properties in the province of Ontario, and was incorporated solely to facilitate this transaction. A wholly-owned subsidiary of Veteran, 978889 Alberta Ltd. was amalgamated into Veteran on January 1, 2003. Veteran intends to actively pursue several prospects that have been identified on its Ontario properties.

## Results of Operations

### Revenue and Product Pricing

Total revenue decreased to $2,187,125 in 2002, down 13.8 percent from $2,536,406 in the prior year, resulting from a 12.1 percent decrease in the blended average price received of oil, NGLs and natural gas in 2002 compared to 2001. Blended commodity prices averaged $30.99 per boe in 2002, compared to $35.22 per boe in 2001. Crude oil and liquids prices averaged $37.08 per barrel for the year compared with $34.35 per barrel in 2001. Gas prices fell by $1.55 per mcf, or 25.8 percent, to $4.44 per mcf compared with $5.99 per mcf recorded in 2001.

Revenue in 2002 was comprised of 50.6 percent from the sale of natural gas and 49.4 percent from the sale of oil and NGLs. The following tables show the revenue split by production and the average product pricing for the most recent two years:

**Gross Revenue**

| | 2002 | % | 2001 | % |
|---|---|---|---|---|
| Natural gas sales | $ 1,107,298 | 50.6 | $ 1,402,887 | 55.3 |
| Oil sales | 878,663 | 40.2 | 835,970 | 32.9 |
| NGLs sales | 201,164 | 9.2 | 297,549 | 11.8 |
| Total revenue | $ 2,187,125 | 100.0 | $ 2,536,406 | 100.0 |

**Average Product Price**

| | 2002 | 2001 |
|---|---|---|
| Natural gas ($/mcf) | 4.44 | 5.99 |
| Oil ($/bbl) | 37.74 | 33.49 |
| NGLs ($/bbl) | 34.45 | 37.08 |
| Average benchmark prices: | | |
| Oil – WTI Cushing ($US/bbl) | 26.08 | 25.90 |
| Edmonton Par ($CDN/bbl) | 39.99 | 39.21 |
| CDN/US dollar exchange rate | 1.570 | 1.548 |

## Royalties

Veteran's royalties, net of Alberta Royalty Tax Credit (ARTC), decreased by 34.0 percent from $7.24 to $4.85 per boe in 2002. Royalties, as a percentage of revenue for the year, were 15.6 percent compared to the prior year of 20.5 percent. The royalty reduction was entirely due to lower commodity prices.

Veteran is eligible for ARTC on all of its Alberta gas production and some of its oil production. ARTC of $50,472 was recorded in 2002, compared with $102,035 in 2001. The ARTC offsets Alberta Crown royalties paid. The prevailing quarterly rates are set by the Alberta government and the rates decline as commodity prices rise.

### Operating Expense

Operating expense in 2002 was $513,913 or $7.28 per boe compared with $619,650 or $8.60 per boe in 2001. During 2002, Veteran received an adjustment on some processing fees for 2001 and 2002 which lowered the operating expenses per boe. The company expects operating expenses per boe to increase slightly for 2003 with the addition of its Ontario production.

### General and Administrative Expense

General and administrative expense totalled $625,946 in 2002, up from $467,628 in 2001. On a per unit basis, this translated to $8.87 per boe in 2002, up $2.37 from $6.50 per boe in the prior year. The increased general and administrative cost was attributed to the Ontario acquisition. Veteran established an Ontario office and incurred associated staffing costs related to its Ontario operations. General and administrative cost on a per unit basis are expected to decrease in 2003 with a full year of production contribution from the Ontario properties.

## General and Administrative Expense

| | 2002 | 2001 |
|---|---|---|
| Gross expense | $ 1,119,058 | $ 796,333 |
| Capitalized overhead | 493,112 | 328,705 |
| Net Expense | $ 625,946 | $ 467,628 |
| **Average cost per boe** | | |
| Gross expense | $ 15.85 | $ 11.07 |
| Capitalized overhead | 6.98 | 4.57 |
| Net Expense per boe | $ 8.87 | $ 6.50 |
| **Employees and Consultants as at December 31** | | |
| Office | 9 | 7 |
| Field | 3 | 1 |

### Interest Expense

Interest expense for the year rose to $85,138 from $19,788 in 2001. On a per unit basis interest expense during 2002 was $1.21 per boe compared with $0.27 per boe the prior year. Increased utilization of loan facilities during the year accounted for the additional interest expense. The balance on the Company's combined credit facility loans at December 31, 2002 was $2,825,000 compared with $1,227,247 at the prior year-end.

## Net Operating Income and Cash Flow

Net operating income from production operations for 2002 was $1,331,010, a decrease of 4.6 percent from $1,395,495 achieved in 2001. The decrease resulted from lower commodity prices. Veteran's fourth quarter production volumes increased as a consequence of the purchase of production in Ontario and drilling success in British Columbia. This increase was sufficient to offset normal production declines for the entire year. The average 2002 production of 193.3 boe/d represented a marginal decline of 4 boe/d from the 2001 average of 197.3 boe/d.

Cash flow for 2002 reduced to $619,926 or 33 percent from $929,043 the prior year. General and administrative costs rose by 40 percent or $158,318 due mainly to the expansion of the Company's Ontario operations. Additional utilization of loan facilities during the year translated to an interest expense increase of $65,350. The remaining reduction in cash flow is related to marginally lower production, coupled with lower product pricing.

The boe calculations are derived from annual production volumes of 70,572 boe for 2002 and 72,008 boe for 2001.

### Net Operating Income and Cash Flow

| | 2002 | 2001 |
|---|---|---|
| Oil & gas revenue | $ 2,187,125 | $ 2,536,406 |
| Royalties (net of ARTC) | 342,202 | 521,261 |
| Operating expense | 513,913 | 619,650 |
| Net Operating Income | $ 1,331,010 | $ 1,395,495 |
| Other income | – | (20,964) |
| General and administrative expense | 625,946 | 467,628 |
| Interest expense | 85,138 | 19,788 |
| Cash Flow from Operations | $ 619,926 | $ 929,043 |

### Netback and Cash Flow per boe

| | 2002 | 2001 |
|---|---|---|
| Revenue | $ 30.99 | $ 35.22 |
| Royalties | (4.85) | (7.24) |
| Operating expense | (7.28) | (8.60) |
| Netback | $ 18.86 | $ 19.38 |
| Other income | – | .29 |
| General & administrative expense | (8.87) | (6.50) |
| Interest expense | (1.21) | (.27) |
| Cash Flow | $ 8.78 | $ 12.90 |

## Depletion, Depreciation and Site Restoration

The provision for depletion, depreciation and site restoration totalled $618,419 or $8.74 per boe in 2002 compared with $948,976 or $13.18 per boe for the preceding year. The decrease in depletion rate of $4.44 per boe from 2001 is attributed to the non recurrence of the 2001 ceiling test write-down of $2.6 million.

**Depletion, Depreciation and Site Restoration Expense**

| | 2002 | 2001 |
|---|---|---|
| Depletion expense | $ 581,892 | $ 911,233 |
| Depreciation expense | 20,852 | 24,867 |
| Future site restoration and abandonment costs | 15,675 | 12,876 |
| Total | $ 618,419 | $ 948,976 |
| Per boe | $ 8.74 | $ 13.18 |

## Taxes

Veteran is not currently cash taxable on its income due to its available tax pools. The Company does not anticipate paying income taxes during 2003.

The following table summarizes the Company's tax pools for the two years ended December 31. Veteran's 2002 tax pools are based upon initial tax pools calculations and may be adjusted slightly when filing annual tax returns in June 2003.

**Tax Pools**

| | Maximum Annual Claim | 2002 | 2001 |
|---|---|---|---|
| Canadian Oil and Gas Property Expenditures | 10 % | $ 6,490,360 | $ 3,191,186 |
| Canadian Development Expenditures | 30 % | 4,726,750 | 4,447,310 |
| Canadian Exploration Expenditures | 100 % | 2,342,868 | 1,797,877 |
| Scientific Research and Development | 100 % | 2,398,926 | 2,398,926 |
| Loss carry forwards | 100 % | 463,777 | 463,777 |
| Undepreciated capital costs | 20-30 % | 1,367,512 | 1,379,648 |
| Total | | $ 17,790,193 | $ 13,678,724 |

## Liquidity and Capital Resources

### Capital Expenditures

Veteran's net capital expenditures for 2002 were $4.7 million, of which $3.2 million was spent on acquisition of Ontario assets, $0.1 million for land, $0.6 million for corporate assets and capitalized administration, $0.9 million on drilling, completions and equipping, and the remaining $(0.1) million was related to dispositions. This reflected an increase of 18.7 percent over 2001 capital expenditures.

## Capital Expenditures

| | 2002 | 2001 |
|---|---|---|
| Land | $ 118,636 | $ 955,370 |
| Seismic | – | 112,000 |
| Drilling and completion | 691,787 | 2,283,786 |
| Production facilities | 148,253 | 138,755 |
| Corporate assets and capitalized administration | 614,720 | 436,262 |
| Property acquisitions | 3,232,929 | – |
| Property dispositions | (145,799) | – |
| Total | $ 4,660,526 | $ 3,926,173 |

Veteran's financial strategy is to fund its capital expenditure program by reinvesting its funds from operations, conservatively using bank debt and, when considered appropriate, issuing equity and selling non-core properties. The capital expenditure program for 2002 was financed with $1.4 million of new equity, $1.6 million of cash flow from operations and working capital, and increased debt of $1.6 million.

### Working Capital

The Ontario acquisition, in the amount of $3.2 million after closing adjustments, was financed through bridge financing of $1.6 million and a loan facility drawdown. The bridge financing was subsequently repaid in 2003 from cash flow from operations, working capital and some of the proceeds from the share issuance.

Veteran had working capital of $183,417 at December 31, 2002 after exclusion of the debt from its calculation, inclusion of available undrawn credit facilities, and allowance for a timing difference on a $600,000 drawdown on Loan Facility B, as agreed to with its lender. Although accounting guidelines set forth by the Canadian Institute of Chartered Accountants (CICA) require the inclusion of demand revolving operating loan facilities as a current liability for working capital calculations, the Company's lending institution does not regard these facilities as current and excludes them from the calculation. The following table reconciles the CICA accounting guidelines to the Company's working capital calculations.

## Working Capital at December 31, 2002

| | |
|---|---|
| Working capital per CICA guidelines (Note 1 of financial statements) | $ (3,841,583) |
| Addition of Loan Facility A | 2,700,000 |
| Available for drawdown Loan Facility A | 600,000 |
| Addition of Loan Facility B | 125,000 |
| Addition of Loan Facility B for timing difference | 600,000 |
| Working Capital at December 31, 2002 | $ 183,417 |

## Liquidity and Capital Resources

| | 2002 | | 2001 | |
|---|---|---|---|---|
| Share capital | $ 14,694,141 | 84% | $ 13,295,620 | 92% |
| Bank loan | 2,825,000 | 16% | 1,227,247 | 8% |
| | $ 17,519,141 | 100% | $ 14,522,867 | 100% |

### Debt

During 2002, the Company committed to a change of its lending institution, which was finalized in October. Two credit facilities have been approved by the new lending institution. Loan Facility A represents a $3,300,000 revolving operating demand loan. This operating loan facility bears interest at prime plus 0.5 percent. Loan Facility B represents a $2,500,000 non-revolving acquisitions/development demand loan facility. Draws on Loan Facility B are subject to prior engineering review of any proposed project by the bank. Loan Facility B bears interest at prime plus one percent. Both facilities are secured by a first floating charge against all of the Company's oil and gas assets. The credit facilities may be periodically reviewed by the bank with an annual review in May of each year. At the time of writing, the Company had commenced supplying its lending institution with the necessary documentation to facilitate the annual review.

The outstanding credit loan facilities at year-end consist of $2,700,000 drawn against Loan Facility A, the revolving operating demand loan, and $125,000 drawn against Loan Facility B, the non-revolving acquisitions/development demand loan.

### Total Capitalization

Total capitalization increased to $16,913,434 in 2002 from $16,888,355 in 2001, as a result of a 10.2 percent decrease in equity coupled with a 130.2 percent increase in total debt. The year-end share closing prices for 2002 and 2001 were similar at $0.39 and $0.45 respectively. The total capitalization calculation is defined as the aggregate of total debt, future abandonment costs and the market value of the fully diluted common shares based on year-end pricing.

**Total Capitalization**

| | 2002 | 2001 |
|---|---|---|
| Total debt | $ 2,825,000 | $ 1,227,247 |
| Total site restoration and abandonment costs | 156,459 | 140,784 |
| Market value of common shares (fully diluted) | 13,931,975 | 15,520,324 |
| Total Capitalization | $ 16,913,434 | $ 16,888,355 |
| Fully diluted shares | 35,723,015 | 34,489,610 |

## Share Capital

During the month of December, Veteran closed two share issues for total shares of 3,641,300 and net proceeds of $1,398,521. The shares were issued through either a short-form offering memorandum or a private placement share issuance, both of which closed prior to year-end.

Flow through shares of 3,119,800 were issued at $0.45 per share for a gross contribution of $1,403,910, in addition to the issuance of 521,500 common share units at $0.40 per share for a total of $208,600. Net issue costs of $213,989 were paid to third parties for agency, registration and legal fees, for a net total of $1,398,521. Each common share unit entitles the holder to purchase one common share at a price of $0.40 per share and one half non-transferable common share purchase warrant exercisable at a price of $0.50 per share, expiring June 30, 2004. At December 31, 2002, 260,750 warrants were outstanding.

In connection with the 2002 share issuances, an agent has options to purchase 52,150 units at $0.40 per unit. Each unit is comprised of one common share and one half non-transferable common share purchase warrant. Each warrant is exercisable into one common share at a price of $0.50 per share at any time until June 30, 2004. In addition, the agent has options to purchase 311,980 common shares at a price of $0.45 per share, expiring June 30, 2004.

Subsequent to year-end, the Company sold 1,496,500 units at $0.40 per unit, raising gross proceeds of $598,600. Each unit consists of one common share and one half of one share purchase warrant. Each whole share purchase warrant entitles the

holder to acquire one common share for $0.50 per share for a period of 18 months from the date of issue. In connection to this, the Company granted options to the agent to acquire an aggregate of 149,650 units for $0.40 per unit for a period of 18 months.

## Net Asset Value

Significant reserve additions, aided by the positive outlook for natural gas prices, delivered an increase in the Corporation's net asset value per basic share in 2002. The following table represents the net asset value per share, based upon an independent engineering firm's pretax reserve evaluation, discounted at 10 percent, plus an independent undeveloped land evaluation, less Company debt, divided by the basic shares outstanding at year-end.

**Net Asset Value**

| *(Thousands)* | 2002 | 2001 |
|---|---|---|
| Proven and risked probable reserves | $ 9,799 | $ 4,919 |
| Undeveloped land | 6,179 | 2,612 |
| Working capital | – | – |
| Long term debt | (2,825) | (1,227) |
| Net asset value | $ 13,153 | $ 6,304 |
| Shares outstanding at December 31, 2002 | 32,540,920 | 28,899,620 |
| Net asset value per share | $ 0.40 | $ 0.22 |

## Risk Management

Veteran did not have any financial instruments or hedging contracts in place during 2002. Although the Company expects prices to remain firm throughout 2003, it will re-evaluate the need for any hedging contracts on a routine basis throughout 2003.

## Future Trends and Risk Factors

The exploration, development, production and marketing of crude oil and natural gas reserves carry certain risks. Veteran is exposed to a number of risks inherent to the oil and gas industry, including:

- Finding and recovering oil and gas reserves;
- Securing access to markets for product sales;
- Potential damage to, or malfunction of, operating machinery and equipment and the potential liability associated with an occurrence or malfunction;
- Mishaps during well drilling and service operations;
- Commodity price and interest and exchange rates;
- Changes to income tax and royalty regulations; and
- Changes to environmental and other governmental regulations.

Veteran mitigates these risks by disciplined adherence to specific operating and financial strategies, including:

- Employing highly competent professional staff who use leading edge technology;
- Performing a careful risk/reward analysis of each prospect from a geological, geophysical and engineering perspective;
- Focusing on a limited number of core areas and frequent joint venture audits;
- Striving to be a low-cost producer to enable the Company to prosper during times of lower commodity prices;
- Maintaining adequate insurance programs to mitigate losses;
- Operating in a manner that minimizes the impact of the Company's activities on the environment; and
- Employing good oilfield practices in operations.

## Sensitivity Analysis

The following are the variables that have the greatest impact on 2003 budgeted cash flow:

**Sensitivities**

| | Cash flow | Cash flow Per share |
|---|---|---|
| Natural Gas | | |
| Per $0.10/mcf | $ 24,357 | $ 0.0007 |
| Per 100 mcf/day | $ 161,910 | $ 0.0050 |
| Oil | | |
| Per US$1.00 WTI | $ 45,627 | $ 0.0014 |
| Per 10 bbls/day | $ 263,404 | $ 0.0081 |
| Exchange Rate | | |
| Per US$0.01 | $ 6,913 | $ 0.0002 |
| Interest Rate | | |
| Per 1% plus prime | $ 33,000 | $ 0.0010 |

## Corporate Governance

The Toronto Stock Exchange has adopted a series of guidelines (the "TSE Guidelines") for effective corporate governance. The TSX Venture Exchange ("TSX-V") requires that all Tier 1 issuers disclose on an annual basis their approach to corporate governance and recommends using the TSE Guidelines as a general reference. The Board of Directors convened a special meeting in 2002 for the purpose of establishing corporate governance policies and procedures. At this meeting the, Directors determined that Veteran would strive to conform to the TSE Guidelines even though the policies of the TSX-V, on which the Corporation's common shares are listed, do not require the Corporation to do so. The Corporation's approach to corporate governance with reference to the TSE Guidelines is set out in a summary form below:

I. The Board should assume responsibility for stewardship of the Corporation including:

a. Adoption of a strategic planning process:
The Board of Directors has explicitly assumed responsibility for the stewardship of the Corporation and the adoption of the strategic planning process. The Board met seven times during the 2002 fiscal year.

b. Identification of principal risks and implementation of systems to manage these risks:
The Board periodically reviews the Corporation's principal risks and management's recommendations for managing these risks. At each Board meeting, management and the directors also review operations, which includes issues relating to risk.

c. Succession planning, including appointing, training and monitoring senior management:
The Board together with the President and Chief Executive Officer (CEO) intend to develop and adopt limits to management's authority in the conduct of day-to-day business activities within the framework of an overall corporate budget. All senior management appointments are undertaken either with the approval of the entire Board or with input from some of the unrelated directors.

d. Communications policy:
The Corporation further determined that it would adopt a communications policy.

e. Integrity of internal control and management information systems:
The Audit Committee consists of three members of the Board: Stanley Odut (Chairman), Derrick Armstrong and Larry Comeau. The Audit Committee periodically reviews internal control systems with senior management and with the auditors of the Corporation. The integrity of the management information systems is monitored by senior management and is reviewed annually with the Audit Committee.

II. A majority of the directors should be "unrelated" and free from conflicting interest. Where there is a significant shareholder there should also be a number of directors unrelated to the significant shareholder that reflects the share of the Corporation held by other shareholders.

— and —

III. The Board is responsible for applying the definition of "unrelated director" to the circumstances of its individual directors, and is required to disclose annually whether Guideline 2 has been met along with the principles supporting that conclusion.

The Board has considered, with respect to each director, his independence in relation to management and any interest or relationship that could reasonably be perceived to materially interfere with his ability to act with a view to the best interests of the Corporation.

The Corporation's Board is comprised of seven members. The Corporation reviewed the status of each of its directors and determined that Donald Jewitt (Chairman), Derrick Armstrong, Larry Comeau and Stanley Odut are considered under the guidelines to be clearly unrelated. It was also determined that Philip Loudon, Brian Schmidt and Ivan Wytrychowski are all clearly related and inside directors of the Corporation. It was determined that Donald Jewitt became unrelated when he resigned as President of the Corporation because he does not hold a management position with the Corporation. It was also determined that Derrick Armstrong could be considered unrelated because, even though the law firm with which he is a partner provides legal services to the Corporation, the services are not a significant part of either Mr. Armstrong's or his legal firm's practice.

The Board affirmed that over time it was intended to replace management persons on the Board with additional independent and unrelated directors, to give the Board further independence.

IV. The Board should appoint a committee of directors composed exclusively of outside, i.e. not management directors, a majority of whom are unrelated directors with the responsibility for proposing to the full Board new nominees to the Board and for assessing directors on an ongoing basis.

—and—

V. The Board should implement a process for assessing the effectiveness of the Board as a whole, its committees and the contribution of individual directors. This process should be carried out by the nominating committee or other appropriate committees.

Regarding guidelines 4 and 5, the Board determined that nominations for new Board members should be done in consultation with the CEO, and handled by the Corporate Governance Committee. The Corporate Governance Committee will be responsible for nominating new members and assessing current members. This would be done in the spring of each year in conjunction with preparation of the Corporation's information circular for its Annual General Meeting.

VI. The Corporation should provide an education and orientation program for new recruits to the Board.

The Board determined that the CEO shall be responsible for orientation of all new directors and prospective candidates on the role of Board and committee members, and the contribution individual directors are expected to make, including in particular the commitment of time and energy that the Corporation expects of its directors.

VII. Every Board should examine its size and, with a view to determining the impact of the number of members upon effectiveness, undertake, where appropriate, a program to reduce the amount of directors to a number which facilitates more effective decision-making.

The Board examined its size, being seven, and determined this was in the upper end of the range of directors for a Corporation of this size. It was affirmed that over time, it was intended to have fewer management persons on the board and that these members would be replaced with independent directors while maintaining a size of no greater then seven.

VIII. The Board should review the adequacy and form of the compensation of directors to ensure that it reflects the responsibilities and risks involved.

The Board determined that each outside director will receive a fee of $500.00 per director meeting or committee meeting and all directors' travel expenses with respect to meetings, including travel expenses of non-related or inside directors, would be paid by the Corporation. It was also determined that outside directors would receive a standard number of stock options, with the number to be recommended by the President.

IX. Committees of the Board should generally be composed of outside directors, a majority of whom are unrelated, although some committees, such as the executive committee, may include inside directors, such as officers or employees of the Corporation or its affiliates.

| | |
|---|---|
| Corporate Governance | Derrick R. Armstrong – Chairman<br>Donald Jewitt |
| Audit | Stanley Odut – Chairman<br>Derrick R. Armstrong<br>Larry Comeau |
| Compensation | Larry Comeau – Chairman<br>Stanley Odut |
| Reserves | Stanley Odut – Chairman<br>Larry Comeau<br>Ivan Wytrychowski |

With regard to the Audit Committee, it was determined that all may be considered to have financial literacy, as that term is used in the guidelines.

X. The Board should assume responsibility, or assign responsibility to a committee of directors for developing the Corporation's approach to governance issues and for the Corporation's response to these guidelines.

The Corporation has established a Corporate Governance Committee, which develops the Corporation's approach to governance issues.

XI. The Board, together with the CEO, should develop position descriptions for the Board and the CEO, involving the definition of the limits to management's responsibilities. In addition, the Board should approve, or develop with the CEO, the CEO's objectives.

The Board determined that the CEO, in conjunction with management, should set budgets and corporate objectives annually. These ought to be reviewed at annual retreats to assess the success on an annual basis of whether or not the CEO and management are meeting the objectives set for them. It was also determined that a description of the responsibilities of the CEO would be prepared.

XII. Every Board should have the appropriate structures and procedures to ensure that the Board can function independently of management. This may be accomplished by separating the functions of CEO and Chairman of the Board or by other means.

It was determined that the Board wished to ensure it could function independently of management and to that end affirmed Donald Jewitt as the Chairman of the Board of Directors. It was determined that Donald Jewitt is no longer considered a related director since he resigned as President and CEO. It will be part of the responsibilities of the Chair to ensure the Board carries out its responsibilities effectively, which includes holding board meetings on a regular basis. It was determined that it was not practical to carry out directors' meetings at this time without management present due to the number of members of management currently on the Board. It was determined that the President will act as the Vice-Chair of meetings of the Board of Directors.

XIII. The Audit Committee of the Board should be composed only of outside directors. The roles and responsibilities of the Audit Committee should be specifically defined. The Audit Committee should have direct communication channels with external and internal auditors. The Audit Committee should ensure that management has fulfilled its obligation to design and implement an effective system of internal controls.

It was determined that a charter would be prepared for the Audit Committee.

XIV. The Board should enable directors to engage outside advisors at the expense of the Corporation when appropriate, subject to the approval of a Board Committee.

It was determined that, subject to the approval of the Corporate Governance Committee, any individual director could engage outside advisors at the expense of the Corporation in appropriate circumstances.

The Board of Directors retains authority with regard to any matters not specifically assigned to a committee of the Board. These matters include, but are not limited to, issuance of securities, borrowing policy, dividend policy, hedging and derivative activities, major acquisitions and dispositions, and capital expenditure programs. With regard to the latter, the Board of Directors together with the President & CEO intend to develop and adopt limits to management's authority in the conduct of day-to-day business activity within the framework of an overall corporate budget.

## Management's Report

The accompanying financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared by management in accordance with generally accepted accounting principles, and in the opinion of management, present fairly the financial position and results of operation of the Company within acceptable limits of materiality. Financial and operating information presented elsewhere in the annual report is consistent with the results summarized in the financial statements.

Management maintains appropriate systems of internal controls to safeguard assets and enable accurate and timely financial and operating reporting. The accuracy of the financial reporting has been examined by external auditors. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for stewardship and financial reporting and is ultimately responsible for reviewing and approving the financial statements.

Philip Loudon
President & CEO

Brian Schmidt
Secretary-Treasurer

## Auditors' Report

To the Shareholders of Veteran Resources Inc.:

We have audited the balance sheet of **Veteran Resources Inc.** as at December 31, 2002 and the statements of income (loss) and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2001 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated April 19, 2002.

Deloitte & Touche LLP
Chartered Accountants

Calgary, Alberta
March 21, 2003

# Balance Sheet

| December 31 | 2002<br>$ | 2001<br>$ |
|---|---|---|
| **ASSETS** | | |
| **CURRENT** | | |
| Restricted cash (Note 6) | **1,403,910** | 823,365 |
| Accounts receivable | **661,729** | 312,903 |
| Prepaid expenses | **145,293** | 97,352 |
| | **2,210,932** | 1,233,620 |
| Capital assets (Note 3) | **11,641,578** | 7,583,796 |
| | **13,852,510** | 8,817,416 |
| **LIABILITIES** | | |
| **CURRENT** | | |
| Accounts payable and accrued liabilities | **1,652,515** | 1,205,877 |
| Bank indebtedness (Note 4) | **2,825,000** | – |
| Advances from directors, officers and shareholders (Note 5) | **1,575,000** | – |
| | **6,052,515** | 1,205,877 |
| Bank indebtedness (Note 4) | **–** | 1,227,247 |
| Future site restoration | **156,459** | 140,784 |
| | **6,208,974** | 2,573,908 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 6) | **14,694,141** | 13,295,620 |
| Deficit | **(7,050,605)** | (7,052,112) |
| | **7,643,536** | 6,243,508 |
| | **13,852,510** | 8,817,416 |

Approved by the Board

Director

Director

# Statement of Income (Loss) and Deficit

| For the Years Ended December 31 | 2002<br>$ | 2001<br>$ |
|---|---|---|
| **REVENUE** | | |
| Oil and gas | **2,187,125** | 2,536,406 |
| Royalties | **(342,202)** | (521,261) |
| | **1,844,923** | 2,015,145 |
| Other income | – | 20,964 |
| | **1,844,923** | 2,036,109 |
| **OPERATING EXPENSES** | | |
| Operating | **513,913** | 619,650 |
| Depletion and depreciation | **602,744** | 936,100 |
| Site restoration | **15,675** | 12,876 |
| General and administrative | **625,946** | 467,628 |
| Interest on bank debt | **85,138** | 19,788 |
| Writedown of capital assets (Note 2) | – | 2,600,000 |
| | **1,843,416** | 4,656,042 |
| **NET INCOME (LOSS)** | **1,507** | (2,619,933) |
| **DEFICIT, BEGINNING OF YEAR** | **(7,052,112)** | (4,432,179) |
| **DEFICIT, END OF YEAR** | **(7,050,605)** | (7,052,112) |
| INCOME (LOSS) PER SHARE (Note 2) | – | (0.10) |

# Statement of Cash Flows

| For the Years Ended December 31 | **2002** | 2001 |
|---|---|---|
| | $ | $ |
| OPERATING | | |
| Net income (loss) | **1,507** | (2,619,933) |
| Items not affecting cash: | | |
| Depletion and depreciation | **602,744** | 936,100 |
| Site restoration | **15,675** | 12,876 |
| Writedown of capital assets | **–** | 2,600,000 |
| Funds flow from operations | **619,926** | 929,043 |
| Changes in non-cash working capital | **49,871** | 417,584 |
| | **669,797** | 1,346,627 |
| FINANCING | | |
| Issue of common shares | **1,612,510** | 825,565 |
| Share issue costs | **(213,989)** | (121,963) |
| Increase in bank indebtedness, net | **1,597,753** | 1,227,247 |
| Advances from directors, officers and shareholders | **1,575,000** | – |
| | **4,571,274** | 1,930,849 |
| INVESTING | | |
| Purchase of capital assets | **(4,806,325)** | (3,926,173) |
| Proceeds from disposition of capital assets | **145,799** | – |
| | **(4,660,526)** | (3,926,173) |
| NET INCREASE (DECREASE) IN CASH | **580,545** | (648,697) |
| CASH, BEGINNING OF YEAR | **823,365** | 1,472,062 |
| CASH, END OF YEAR | **1,403,910** | 823,365 |
| Represented by: | | |
| Restricted cash | **1,403,910** | 823,365 |
| SUPPLEMENTARY INFORMATION | | |
| Interest paid | **85,138** | 19,788 |
| Funds flow from operations per share | **0.02** | 0.03 |

# Notes to Financial Statements

## 1. OPERATIONS, FINANCIAL POSITION AND SUBSEQUENT EVENTS

Veteran Resources Inc. ("the Company") is engaged in the acquisition of, exploration for and development of oil and natural gas properties in Canada.

At December 31, 2002, the Company had an accumulated deficit of $7,050,605 and a working capital deficiency of $3,841,583. The ultimate recovery of the Company's investment in capital assets is dependent upon the successful exploration for and development of oil and natural gas in commercial quantities. The future success of the Company, and its ability to continue as a going concern, is dependent upon the ability of the Company to recover the cost of its capital assets, operate profitably, arrange financing as required, generate sufficient cash flow to meet its liabilities as they fall due, meet its financial covenants and obtain the continued support of its lenders and creditors. There can be no assurance that the above conditions will be achieved.

These financial statements are prepared using Canadian generally accepted accounting principles that are applicable to a going concern, which assumes the realization of assets and the settlement of liabilities in the normal course of operations. Should this assumption not be appropriate, adjustments in the carrying amounts of the assets and liabilities to their realizable amounts and the classification thereof will be required.

Subsequent to December 31, 2002, the Company sold 1,496,500 units at $0.40 per unit, raising gross proceeds of $598,600. Each unit consists of one common share and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one common share for $0.50 per share for a period of 18 months. In connection therewith, the Company granted options to the agents to acquire an aggregate of 149,650 units for $0.40 per unit for a period of 18 months.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Capital assets*

The Company follows the full cost method of accounting for its petroleum and natural gas properties and equipment whereby all costs related to the exploration for and development of oil and gas reserves are capitalized. Costs include lease acquisition, geological and geophysical expenditures, carrying costs of non-productive properties, the drilling of productive and non-productive wells and related plant and production equipment costs. General and administrative expenses of $493,112 (2001 - $328,705) were capitalized. Interest expense is not capitalized. Proceeds on disposal of properties are ordinarily deducted from such costs without recognition of profit or loss except where such disposal would change the rate of depletion by 20% or more.

The Company calculates a "cost ceiling" which limits the net book value of capital assets, net of future site restoration and income taxes, to the undiscounted and unescalated future net revenues from production of proved reserves based upon period-end prices as estimated by the Company's independent reserve engineers. Additional depletion is provided if the net book value of capitalized costs exceeds such future revenue. This test also takes into account estimated future general and administrative expenses, site restorations and abandonments, financing costs and income taxes, all undiscounted and unescalated. In 2001, the Company recorded a writedown of capital assets of $2,600,000.

Depletion is computed using the unit-of-production method where the ratio of production to estimated proved reserves determines the proportion of depletable costs to be expensed. Depletable costs are reduced by the estimated future salvage values of equipment, plants and facilities, and undeveloped properties are excluded from the depletion calculation until the quantities of proved reserves relating to those properties can be determined. Undeveloped properties are reviewed at least annually for impairment.

Depreciation of office equipment is computed on the declining-balance method at the rate of 20% per year.

*Future site restoration costs*

The provision for future site restoration costs relating to petroleum and natural gas properties, as estimated by the Company's independent reserve engineers, is charged against income on a unit-of-production basis. The accumulated provision is reflected as long-term liability and is reduced by expenditures incurred.

*Measurement uncertainty*

The amounts recorded for depletion, depreciation and writedowns of capital assets and the provision for future site restoration are based on estimates of proved reserves, production rates, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact of the difference between actual results and these estimates on the financial statements of future periods could be material.

*Income taxes*

The Company follows the liability method of accounting for income taxes.

The Company has a future potential income tax asset resulting primarily from the tax basis of petroleum and natural gas properties exceeding the accounting net book value. However, a tax asset is only recognized if it is more likely than not to be realized.

*Joint ventures*

A significant portion of the Company's exploration, development and production activities are conducted jointly with other entities and accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

*Revenue recognition*

Revenues from the sale of oil and natural gas are recognized when title passes to the customer.

*Per share information*

Per share information is calculated using the treasury stock method and is based on the weighted average number of shares outstanding during the period, which was 28,908,510 (2001 - 27,073,212). Diluted loss per share and diluted funds flow from operations per share, as affected by stock options and warrants as described in Note 6, are anti-dilutive.

*Stock-based compensation*

Effective January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants on accounting for stock-based compensation and other stock-based payments. The Company has elected to use the intrinsic value based method of accounting for stock-based compensation arrangements and to disclose the pro forma results using the fair value based method as disclosed below. The new recommendations apply to options granted after January 1, 2002.

The Company's stock-based compensation plan is described in Note 6. No compensation expense is recognized for this plan when stock options are issued at market prices to employees and directors. Any consideration paid by option holders on the exercise of stock options is credited to share capital.

## 3. CAPITAL ASSETS

| | 2002 | | |
|---|---|---|---|
| | Cost<br>$ | Accumulated Depletion and Depreciation<br>$ | Net Book Value<br>$ |
| Petroleum and natural gas properties | 20,472,567 | 8,878,099 | 11,594,468 |
| Office equipment | 153,519 | 106,409 | 47,110 |
| | 20,626,086 | 8,984,508 | 11,641,578 |

| | 2001 | | |
|---|---|---|---|
| | Cost<br>$ | Accumulated Depletion and Depreciation<br>$ | Net Book Value<br>$ |
| Petroleum and natural gas properties | 15,823,135 | 8,289,871 | 7,533,264 |
| Office equipment | 142,425 | 91,893 | 50,532 |
| | 15,965,560 | 8,381,764 | 7,583,796 |

At December 31, 2002, petroleum and natural gas properties include approximately $2,600,000 (2001 - $2,600,000) relating to unproved properties that have been excluded from the depletion calculation.

## 4. BANK INDEBTEDNESS

The Company has a revolving operating demand loan facility in the authorized amount of $3,300,000 to finance operating requirements, bearing interest at prime plus 0.5%. At December 31, 2002, $2,700,000 was drawn under this facility. The Company also has a non-revolving demand loan facility in the authorized amount of $2,500,000 to finance the acquisition and/or development of petroleum and natural gas reserves, bearing interest at prime plus 1%. At December 31, 2002, $125,000 was drawn under this facility.

The facilities are secured by a floating charge over all the assets of the Company, and are subject to periodic review by the lender. The next review is scheduled to occur on or before May 1, 2003. While all obligations to the lender are repayable on demand at any time, the availability of the facilities is subject (a) to a number of covenants, including the requirement to maintain a specified working capital ratio, and (b) to a number of events of default, including the failure to comply with a covenant and a material adverse change in the financial condition of the Company, as determined by the lender. The Company is required to maintain working capital balances such that current assets, plus the undrawn portion of the revolving operating demand loan facility must exceed current liabilities other than bank debt. At December 31, 2002, this requirement was not met due to the timing of a drawdown of bank debt, however the lender has waived such potential breach of this covenant.

Amounts drawn under the revolving term loan facility outstanding at December 31, 2001 were repaid in 2002.

## 5. ADVANCES FROM DIRECTORS, OFFICERS AND SHAREHOLDERS

In November 2002, directors, officers and shareholders advanced $1,575,000 to the Company, of which $1,425,000 was advanced by directors and officers. These advances bore interest at 8.358% per annum and were repaid together with related interest of $19,000 (included in accounts payable at December 31, 2002) in January 2003.

## 6. SHARE CAPITAL

Authorized

Unlimited number of common shares, without nominal or par value

Unlimited number of redeemable preferred shares

Issued

Common shares

| | Number | Amount $ |
|---|---|---|
| Balance, common shares - December 31, 2000 | 27,065,920 | 12,592,018 |
| Issued for cash on exercise of stock options | 4,000 | 2,200 |
| Flow-through shares issued for cash, net of issue costs of $121,963 | 1,829,700 | 701,402 |
| Balance, common shares - December 31, 2001 | 28,899,620 | 13,295,620 |
| Flow-through shares issued for cash | 3,119,800 | 1,403,910 |
| Shares issued for cash | 521,500 | 208,600 |
| Issue costs | – | (247,012) |
| Balance, common shares - December 31, 2002 | 32,540,920 | 14,661,118 |
| Issued | | |
| Agent options and warrants issued in 2002 | 390,205 | 33,023 |
| **Balance, share capital - December 31, 2002** | | **14,694,141** |

*Stock options and warrants*

Stock options have been granted to directors, officers, employees and consultants entitling them to purchase common shares of the Company. A summary of such options outstanding at December 31, 2002 and 2001 and the changes during the years then ended is presented below:

| | Stock Options | Weighted Average Price $ |
|---|---|---|
| Balance - December 31, 2000 | 1,785,200 | 0.82 |
| Granted | – | – |
| Exercised | (4,000) | 0.55 |
| Expired, unexercised | (15,000) | 1.70 |
| Balance - December 31, 2001 | 1,766,200 | 0.81 |
| Granted | 399,000 | 0.59 |
| **Balance - December 31, 2002** | **2,165,200** | **0.77** |

*Stock options and warrants (continued)*

| Price $ | Outstanding December 31, 2002 | Weighted Average Life Remaining Years | Weighted Average Price $ | Exercisable December 31, 2002 | Weighted Average Price $ |
|---|---|---|---|---|---|
| 0.55 | 880,200 | 0.7 | 0.55 | 880,200 | 0.55 |
| 0.70 | 100,000 | 2.5 | 0.70 | 100,000 | 0.70 |
| 1.01 | 650,000 | 2.1 | 1.01 | 650,000 | 1.01 |
| 1.70 | 136,000 | 1.6 | 1.70 | 136,000 | 1.70 |
| 0.40 | 99,000 | 4.1 | 0.40 | – | 0.40 |
| 0.65 | 300,000 | 4.4 | 0.65 | 300,000 | 0.65 |
| | 2,165,200 | 1.9 | 0.77 | 2,066,200 | 0.79 |

As at December 31, 2002, 260,750 warrants were outstanding. These warrants entitle the holder to purchase one common share at a price of $0.50 and have an expiry date of June 30, 2004.

An agent has options to purchase 52,150 units at $0.40 per unit. Each unit is comprised of one common share and one half non-transferable common share purchase warrant. Each warrant is exercisable into one common share at a price of $0.50 per share at any time until June 30, 2004.

In addition, the agent has options to purchase 365,940 common shares at a price of $0.45 per share, expiring December 31, 2003 and options to purchase 311,980 common shares at a price of $0.45 per share, expiring June 30, 2004.

*Stock-based compensation*

On January 22, 2002, the Company granted 99,000 options to employees to purchase common shares at a price of $0.40 per share. The options have a term of five years, 75,000 of which vest one year from the date of grant and the remaining 24,000 vest over a three-year period commencing one year after the grant date.

On May 9, 2002, the Company granted 300,000 options to a director to purchase common shares at a price of $0.65 per share. The options vested immediately and have a term of five years.

| | Net Income (Loss) $ | Income (Loss) per Share Basic $ | Diluted $ |
|---|---|---|---|
| Net income as reported | 1,507 | 0.00 | 0.00 |
| Pro forma adjustments | (126,112) | (0.00) | (0.00) |
| Pro forma net income | (124,605) | (0.00) | (0.00) |

| | |
|---|---|
| Risk-free interest rate | 4.95% |
| Expected hold period to exercise | 5 years |
| Volatility in the market price of the common shares | 65% |
| Estimated annual dividend | 0% |

*Flow-through shares*

Under this type of financing arrangement, shares are issued at a fixed price and the resultant proceeds are used to fund exploration and development work within a defined time period. The tax deductions arising are available to the investors, not the Company. Restricted cash represents proceeds from flow-through share offerings which had not been spent on qualifying expenditures as at December 31, 2002 and 2001.

## 7. INCOME TAXES

The provision for income taxes reflects an effective tax rate which differs from the expected Canadian income tax rate of 42.25% (2001 - 43.11%) as summarized below:

| | **2002** | 2001 |
|---|---|---|
| | **$** | $ |
| Expected income tax expense (recovery) | **637** | (1,129,453) |
| Non-deductible crown payments | **129,049** | 192,484 |
| Resource allowance | **(42,424)** | (120,754) |
| (Decrease) increase in valuation allowance | **(220,000)** | 1,033,000 |
| Other | **132,738** | 24,723 |
| Income tax provision (recovery) | **–** | – |

The Company has an excess of accumulated income tax deductions over the net book value of capital assets. These income tax deductions are available to reduce future taxable income.

In addition, the Company has scientific research expenditures and tax credits. The scientific expenditures may be used to reduce future taxable income and will begin to expire in the year 2004. The tax credits may be used to reduce future federal taxes payable and will expire in the year 2009.

The potential future benefit of income tax deductions has not been recognized as an asset in these financial statements. The future income tax asset is comprised of:

| | **2002** | 2001 |
|---|---|---|
| | **$** | $ |
| Property and equipment | **1,622,000** | 2,410,000 |
| Scientific Research and Experimental Development expenditures | **1,014,000** | 449,000 |
| Share issue costs | **192,000** | 189,000 |
| Potential future income tax asset | **2,828,000** | 3,048,000 |
| Valuation allowance | **(2,828,000)** | (3,048,000) |
| Future tax asset | **–** | – |

## 8. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The nature of oil and gas operations and the issuance of debt expose the Company to fluctuations in commodity prices and interest rates. In addition, a substantial portion of the Company's accounts receivable are with customers and joint venture participants in the oil and gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflect management's assessment of the credit risk associated with these customers and participants.

Financial instruments recognized on the balance sheet consist of restricted cash, accounts receivable, accounts payable, bank indebtedness and advances from directors, officers and shareholders. The fair value of these financial instruments as at December 31, 2002 and 2001 approximates their carrying value due to the short-term maturity of these instruments.

## 9. CONTINGENCY

At December 31, 2002, the Company had an outstanding letter of credit for site restoration guarantees in the amount of $72,000.

# CORPORATE INFORMATION

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Philip Loudon
*President & CEO*

Ian Colquhoun
*Exploration Manager – Ontario*

Hess Lenstra
*Vice President Exploration*

Debby Rutter
*Controller*

Brian H. Schmidt
*Vice President Operations &*
*Secretary Treasurer*

Ivan Wytrychowski
*Vice President Production*

### AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

### SOLICITORS

Borden Ladner Gervais LLP
Calgary, Alberta

### DIRECTORS

Derrick Armstrong
*Senior Partner*
*Borden Ladner Gervais LLP*

Larry Comeau
*President*
*Technology Services Group and*
*Senior Vice-President*
*Precision Drilling Corporation*

Donald Jewitt
*President*
*Frontier Petroleum Services Ltd.*

Philip Loudon
*President & CEO*
*Veteran Resources Inc.*

Stanley Odut
*President & CEO*
*Sifton Energy Inc.*

Brian H. Schmidt
*Vice President Operations &*
*Secretary Treasurer*
*Veteran Resources Inc.*

Ivan Wytrychowski
*Vice President Production*
*Veteran Resources Inc.*

### BANKERS

National Bank of Canada
Calgary, Alberta

### TRANSFER AGENT

Computershare Trust Company
of Canada
Calgary, Alberta

### TRADING SYMBOL

VTI

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